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PRICE ECONOMICS VERSUS WELFARE ECONOMICS: CONTEMPORARY OPINION

In a former paper was sketched the origin and main features of "price economics," and various protests against it were described. This survey extended to the last quarter of the nineteenth century, the post-Ricardian period following the death of J. S. Mill, during which time criticism and rejection of the main tenets of price economics seemed well nigh universal, even among the professional economic students in England and America.[1] If, indeed, the change of opinion had been as complete as it seemed, it would put a terminus to our inquiry at this point. But the conception of price economics had very tenacious roots, and sprang up vigorous again in the writings of authors where it had been blasted in leaf and branch. We even hear it seriously contended now that price economics is the ideal for the future, not the outgrown error of the past. It remains for us in this paper, therefore, to inquire as to the present state of opinion on this subject, and to formulate the issue that presents itself to every serious economic student.

I. *Alfred Marshall's dilemma.*

Alfred Marshall, the venerable dean of English economists, forms a bond between the later nineteenth and the early twentieth century economics, and by his remarkable talent for eclecticism probably embodies and exemplifies better than any one else the more generally prevailing uncritical opinion among English and American economists. His views on the subject in hand were set forth in a paper read by him in 1896[2] before the Cambridge Economic Club. The larger part of that paper was taken up with what Marshall himself calls the "technical aspects of an-

[1] AMERICAN ECONOMIC REVIEW, vol. X, no. 3 (Sept., 1920).

[2] See *Quarterly Journal of Economics*, vol. 11, pp. 115-135, "The Old Generation of Economists and the New," an address delivered at Cambridge, England, October 29, 1896.

alysis."[3] The other points of the paper, which bear more directly upon our present problem, may be summarized as follows:

1. Economic science is less dogmatic; it has become less confident than it was thirty years before (*i.e.*, 1866). "It is now patent even to those that are in a hurry, that no practical problems can be settled offhand by appeal to general doctrines; for the things of which account must be taken are so diverse." (Pp. 116-119.)

2. The new economics is less abstract; it deals "with the whole of man's nature, though" it lays "chief stress on certain special aspects of it"; this calls for the use of more and broader history. (Pp. 120-122.)

3. The economist is no longer commercially minded, having lost his upper-class bias. "The academic economist . . . accepts the premises of the working classes that the well-being of the many is more important than that of the few." (This is followed by the warning that it is often the economist's duty to combat popular and fashionable demands that would cause a loss greater than the benefit.) (Pp. 128-130.)

He is thus led to this quite Ruskinian thought, the philosophic conception of a welfare economics: "Social good lies mainly in that healthful exercise and development of faculties which yields happiness without pall, because it sustains self-respect and is sustained by hope."[4] He concludes with an exhortation to the oncoming generation of economists to apply their powers and "sympathies towards the great task of utilizing the present waste products of human effort for the production of human lives that are joys in themselves and the sources of joy, and to press on steadfastly towards the distant goal where the opportunities of a noble life may be accessible to all."[5]

[3] These were: the changes brought about by contact with the physical sciences, in the economists' doctrines of tendencies (pp. 122-123); the greater effort, not yet thoroughly successful, for quantitative analysis (pp. 123-128); "the difficulty of forecasting the nature of the problems which will chiefly occupy the coming generation," for example, the effect of changes in the size of business upon the motives of industrial officials (pp. 130-133); the controversy as to method which, he believed, had been worked through "to the extinction of that controversy," inductive and deductive study being supplementary and both essential (p. 133).

[4] *Idem,* p. 134.

[5] *Idem,* p. 135. Substantially the same views are developed at greater length in Book I of his *Principles,* and incidentally at many other points.

These articles of faith of the neo-Ricardian school evidently differ greatly from those of the old price economics,[6] but just how greatly the old has been modified it is impossible to judge from any such general expressions of faith as Marshall has given. In the application of professions of faith to the actions of practical life so much depends on personal sympathies, on firmly fixed habits of thought, on old intellectual categories unconsciously influencing conclusions.

There is, indeed, a thoroughgoing inconsistency in Marshall's views as to the central aim of economics. On the one hand he would aim to be a welfare economist, as is indicated by the expressions just referred to. He aspires to make economics a study of real human welfare. But Marshall has also another aspiration, which is constantly tempting him to think and speak as a price economist rather than as a welfare economist. He aspires to make economics an exact science, to give to its conclusions the mathematical exactness of the physical sciences, and he sometimes allows his hope to parade as reality. At one time referring to economics as a social science, the one that has outstripped "every other branch,"[7] he speaks of it a few pages later[8] (probably by a slip of thought, but a significant one) as one of the physical sciences though "the least advanced." The advantage and the hope of economics, as he sees it, is in the fact that in price is found "in a form which is easily measurable those desires, aspirations, and other affections of human nature."[9]

Thus he is led to abandon welfare as the center of economic study and to make money "the center around which economic science clusters"[10] and to use it as "the one convenient means of measuring human motive on a large scale." Thus we find him attempting to revise economics by making it more than ever a study of monetary prices and less a study of the process of individual valuation, of human motives, and of human welfare, that underlie and relate to prices.

But almost in the same breath Marshall gave up the case, and undermined the very basis of his own attempt to measure human

6 See American Economic Review, September, 1920, p. 472.

7 Marshall, *Principles of Economics*, p. 75.

8 *Op. cit.*, p. 88.

9 *Op. cit.*, p. 75.

10 As Professor W. C. Mitchell has approvingly shown in "The Rôle of Money in Economic Theory," American Economic Review, Supplement, vol. VI (Mar., 1916), p. 151.

motives (one man's with another, and generally the motives of the mass of men) by prices or by any other standard available. He confesses that when economic studies "are being applied to practical problems" the economist has to "concern himself with the ultimate aims of man" and recognize that equally balanced price motives are often different in "real value" as affecting character and welfare.[11] He admits that the same price "measures different satisfaction" to different persons, even to those with equal incomes.[12] After struggling with this awhile he concludes: "Nevertheless, if we take averages sufficiently broad to cause the personal peculiarities of individuals to counterbalance one another, the money which people of equal incomes will give to obtain a benefit or avoid an injury is a good measure of the benefit or injury."[13]

He finds other difficulties when he attempts to make price the measure of motives as between men of different incomes;[14] equal sums of money are sought as general purchasing power by different persons for the most diverse motives "high as well as low, spiritual as well as material."[15] Many considerations come in, he admits, to make equal sums of money of unequal importance to the same man at different times, and to different men at the same time—physical attractiveness of surroundings in occupations, social position, family affection, and many other things.[16] Despite this proof that money price does not and cannot even remotely measure the motives of the same man at different times or of different men at the same time, he nevertheless stubbornly asserts that "money or material wealth" is to be made the center "because in this world of ours it is the one convenient means of measuring human motive on a large scale."[17]

In accord with this purpose, he makes use constantly of mathematical figures and diagrams according to the method of Cournot. Most of these are relegated later to the appendix (see preface to first edition) and though they are used only "as supplementary illustrations" they seem to have served to strengthen Marshall and also his disciples in the belief that he had attained to exact mathe-

[11] See Marshall, *op. cit.* (4th ed.), p. 77, and generally pp. 75-90.

[12] *Idem,* pp. 78-79.

[13] *Idem,* p. 79.

[14] *Idem,* p. 80.

[15] *Idem,* p. 83.

[16] *Idem,* pp. 84-88.

[17] *Idem,* p. 83.

matical expression of the essential economic motives. But in what part of his work do the results conform to a mathematical standard? Where has he succeeded in measuring and recording economic motives? What part of the value of his work is attributable to his success in this respect? The answer can hardly be in dispute: none, nowhere, nothing at all.

We may not be able to reconcile these two phases of Marshall's thought, but just to recognize his dualism helps us better to interpret him. He is a link between the nineteenth and the twentieth centuries. In his price economics he is, as in other respects, a faithful guardian of the Ricardian tradition. We know that he defends, while he slightly and regretfully amends, the value theory, the fundamental concepts, and the general economic theory of distribution left by Ricardo and Mill. He retains, with a certain clannishness, the heritage of English orthodox economic doctrine, despite some consciousness of its inconsistencies.[18] In his thought the difference between old Ricardianism and neo-Ricardianism is not one of radical change but one of grudging verbal amendment of errors exposed by critics from other schools.

But in his most attractive aspect Marshall is more than a Ricardian and, forgetting to be a price economist, is concerned with human welfare. It is this human element, usually evident in his inquiries, qualitative, not quantitative, that is perhaps the firmest foundation of his reputation, and that commands the respect even of those who deplore his eclecticism in matters of principle, his evasive definitions, and his apologies for the sophistries of Ricardianism.

II. *Wesley C. Mitchell's dilemma.*

Let us turn now to the consideration of the plea for price economics, made by Professor Wesley C. Mitchell.[19] His really astonishing thesis may be fairly summarized in two propositions as follows:

1. The subject of money should be the center of economic study; money furnishes the best framework, it clarifies, it simplifies, it makes the study more realistic, more useful, more fruit-

[18] Marshall, *Principles of Economics,* see preface to first edition, and index under "Ricardo."

[19] In a paper read at the annual meeting of the American Economic Association in December, 1915. American Economic Review, Supplement, vol. VI, (Mar., 1916).

ful, more profound. "Because it thus rationalizes economic life itself, the use of money lays the foundation for a rational theory of that life" (*op. cit.*, p. 157). "Money many not be the root of *all* evil, but it is the root of economic science" (*op. cit.*, p. 157).

2. Every recent tendency, every type of economic theory current at present (*op. cit.*, p. 154), no matter how unlike it may appear to be in form and in emphasis to price, or monetary, economics, no matter how strongly its devotees may believe and protest that they are not concerned primarily with price and the money calculus, does, "in one way or another, tacitly or explicitly" make money the center around which economic science centers.

The first thought involves a comparison: price is a better and "more" suitable center of economic study than was that of the older economics, or than is any alternative suggested by contemporary schools. This implies that the grave fault of the older orthodox economists was that it did not go far enough in making price the center of its inquiry—an astonishing and whimsical proposition. What are the present alternatives that are rejected as less important or proper for economic inquiry than price economics, and what proof is offered that they are less important or proper? Little that is definite is said on either of these questions, but Mitchell depreciates the study of (subjective) valuation and the psychology of behavior as a groping "in that dark subjective realm" which, he feels, it is safer for a man without a lantern to leave unexplored.[20] Likewise, while he admits the study of social welfare to be important and conceivably capable of scientific treatment, he condemns it at present and waives it off into an indefinite distant future until we get "a clearer insight into the industrial process of making goods, the business process of making money."[21] This is courageous commercial economics.

The first of Mitchell's two propositions thus appears to be with him more an article of faith, a proposition self-evident, rather than one calling for evidence and proof beyond the few confident generalizations cited. Our historical sketch of the older doctrine surely shows that it is not, and can not be accepted as axiomatic; rather that it is rejected by nearly every one who examines it. The real purpose of the paper before us is expressed in the second

[20] *Idem*, p. 158.
[21] *Idem*, p. 160.

paragraph as formulated above. Mitchell sought to bring to the support of his own belief the example and authority of all the various recent schools of economic thought, minimizing and ignoring difference of opinion. There is a sweetness of temper about this sort of argument in pleasing contrast with the more usual type of economic criticism in which differences are emphasized and opposing opinions condemned. So Mitchell amiably declares that this tendency to make money the center of economic study is one to be fostered;[22] of all recent tendencies in economic theory none is "more promising."[23] Every evidence of this tendency that he discovers or believes he has discovered, evokes his praise. Whatever of gently sarcastic disapproval he expresses or implies is called forth by the persistence of others in thinking they are doing something different when they really are not, or again in thinking that anything different is worth doing.[24]

The best examples Mitchell cites of price economics are the "price theorists," as he calls them, said to be represented on the continent by Walras (hardly to be cited as exemplifying recent tendencies), by Pareto and his disciple Zawadzki, and by Schumpeter (in some respects); and in England by Edgeworth and Wicksteed. No American name was, or properly could be, added by Mitchell in this connection (Irving Fisher, a strong admirer of Cournot, has to be classified elsewhere) unless it be that of Mitchell himself.

He frankly avows his ideal to be the mathematical method of Cournot. He exults that "in thus singling out the use of money as bringing system into economic behavior, as providing the basis for exact analysis, current theory is returning to the starting point from which Cournot set out on his researches in 1838."[25] His explanation of the way in which economists have come to this result is not flattering to their intelligence: "It is the result of learning by trial and error." "In working out, in treatise after treatise, a reasoned account of how men behave, they [economists] have come, without foreseeing what they were doing, to the basis on which Cournot built in 1838."[26]

[22] Am. Econ. Rev., Supp. Vol. VI, p. 161.

[23] *Idem,* p. 140.

[24] This last thought Mitchell cautiously qualifies in his concluding section. See below, p. 726.

[25] Am. Econ. Rev., Supp. Vol. VI, p. 154.

[26] *Idem,* p. 157.

Mitchell evidently approves the group of price theorists well-nigh absolutely, voicing only a mild suggestion that in dropping entirely the theory of valuation (all interest in individual choice) "price theory" has less significance to the business man than has the theory of the psychological school. The example of the few price theorists mentioned surely has no weight as showing a trend toward price economics in America, and very little as showing such a trend elsewhere.

The last section of Mitchell's paper causes us to wonder whether, after all, his whole argument is not to be taken in a Pickwickian sense. Or is he a bit alarmed by his own conclusion that all economic opinion is moving toward price economics? For, quite in the manner of Marshall, he proceeds to issue various warnings and to place various limitations that give a very different meaning to what he had said, if they do not deprive it of all meaning. Mitchell's own most notable work has been distinctly in the legitimate field of price economics (in his study of crises, of greenbacks, and of index numbers) and he feels a natural confidence in, and a liking for, that branch of inquiry. But having, as he believes, convinced his readers that price economics is the ideal, he suddenly becomes fearful of the consequences, and draws back with cautious protests. He says that we are not to confine our theorizing to the pecuniary aspect of life; it is but one of two objective processes, the other being the making of goods; these processes serve to yield both satisfaction to the individual and material welfare to the community. "Now our interest in economics *centers in* its bearing upon *social welfare* in the present and the proximate future." Were we not told that money "is the center around which economic science clusters?" Was that mere jesting? No, not exactly, for, after another paragraph filled with expressions of hopes of large results from a future "institutional theory" of money, Mitchell reaffirms his thesis as to price economics, and concludes with assertions that making it the center of economic study will clarify economic theory, make it more useful, more realistic, more interesting, more profound.

III. *The neo-classicists.*

As another group of witnesses for the tendency to make price the center of economic study Mitchell cites the neo-classical economists, but discusses only one representative, Alfred Marshall. Mitchell fails to see the duality we have observed in Marshall,

and praises his price economics because "money clarifies obscure relations," and "simplifies economic thinking both for the man in the street and for the economist in the study."[27] Mitchell has overlooked both Marshall's praise of welfare as the center of economic interest, and his admissions of the fundamental weaknesses in price economics.

Every other economist properly to be included among the neoclassicists would be an even more refractory witness to Mitchell's contention, betraying little trend away from Mill's general attitude toward price. All share with Marshall more fully his welfare than his mathematical price tendencies. Take, for example, Taussig. He, like Marshall, shows conflicting tendencies, but does much straighter thinking. Taussig concedes that "in the final analysis, the income of an individual or of a community consists of a sum of utilities [meaning, by that, "psychic income," a term which he uses in this connection] steadily accruing from its store of economic goods."[28] But, though this is the really important thing, he sees that it is not expressible in statistical form, and therefore rejects the attempt to ascertain or consider it, thinking it "best to content ourselves with a statement, and an attempt at measurement in terms not of utility but of money income or of real income." What follows shows that he would take money as the standard only when prices are unchanged and only because it fairly reflects "real income" of "consumable commodities," which he evidently thinks is a much more accurate evidence of "material welfare" than are money prices. This "real income" can, he shows, be in part measured directly; and monetary statistics are of significance only because with "sufficient accuracy" they help to measure these things. Later[29] in considering changes in the level of prices he warns against misunderstanding of the true significance of money, for "prosperity depends on the abundance of things exchanged, not on that of the counters used in effecting the exchanges." These and other more or less conflicting echoes of expressions both from Mill and from Marshall indicate that Taussig at least would prefer to be a welfare economist, but turns as necessary second choice to real income, and only in the third place cautiously turns to money prices to find a numerical expression of economic quantities. Taussig, who is more repre-

27 *Op. cit.*, p. 153.

28 Taussig, *Principles of Economics*, vol. I, p. 134.

29 *Op. cit.*, p. 234.

sentative of American neo-classical economists than is A. Marshall, surely cannot be cited as proof of an increasing tendency toward making price "the center around which economics clusters."

In his masterly review of the newer economic theory in the United States,[30] Professor Joseph Schumpeter thought he could distinguish four groups: "Clark and his tendency (Columbia group), Taussig and some others (Harvard group), Patten and his pupils (Wharton School group), Ely and his circle (Wisconsin group)—somewhat thus it looks to the outsider." This classification, of course, overlooks many important differences; it classes with the Columbia group men identified with Yale, Princeton, Cornell and other universities; it classes with the Harvard group men at other universities, especially Chicago; yet the generalization is in many ways striking and significant. It may serve to show in broad outlines the futility of the claim that American economists have been tending away from a welfare and toward a price economics.

Of these four, the Taussig-Harvard group is the most conservative in the matter of doctrine, nearest to the thought of J. S. Mill. Yet, with the exception of J. L. Laughlin and a few of his pupils at Chicago (notably W. C. Mitchell and H. J. Davenport), it would be difficult to find in this group any evidence of a tendency toward price economics rather than away from it. Certainly Carver, Ripley, Kinley, Gray, Field, Leon P. Marshall, Hoxie, Hamilton, Stewart (to name only a few), with their broader social sympathies or their recently developed interest in institutional history, would not serve as witnesses for such a claim.

The Ely-Wisconsin group—merely to mention it, is to call to mind the pioneer and lifelong work of Professor Ely in developing the social welfare conception of economic problems in America.[31] His pupils or colleagues include Dewey, Commons, Barnett, B. H. Meyer, T. S. Adams, Bullock, Ross, Haney, H. C. Taylor. The "Wisconsin idea" in economics was father to the "Wisconsin idea" in general university policy, and it animates students in every quarter of this land. The scholarly paper on "The Social Point of View in Economics," by a well known member of this group,[32] may fairly be taken as representative in its strong con-

[30] *Jahrbuch für Gesetzgebung,* etc., 1910, vol. 34, pp. 913-963.

[31] See H. W. Farnam, *Deutsch-Amerikanische Beziehungen in der Volkswirtschaftslehre,* pp. 29-30.

[32] Lewis H. Haney, in *Quarterly Journal of Economics,* vol. 28 (Nov., 1913; Feb., 1914), pp. 115-139, 292-321.

demnation of a competitive individual price economics. It is a far cry from the welfare economics of Richard T. Ely to the price economics of J. Laurence Laughlin.

The Patten group was, in its origin and early growth, closely akin to the Ely group. It is sufficient to mention, besides Patten himself, the names of Devine, Lindsay, and Seager, to suggest to any one acquainted with economic studies in America, the strong social tendencies of this group and its remoteness from any mere price economics.

In matters of economic analysis and the general theory of distribution, the Ely and the Patten groups (as judged today) probably must be counted as neo-classic; less so than the Harvard group, yet more so than in their earlier creative period they believed themselves to be. But both have been much more imbued with the spirit of the historical school, have been more responsive to the Austrian and other impulses from the psychological school, and are more inspired with ethical and social ideals.

IV. *The American psychological school.*

The position of the Clarkian group may be indicated sufficiently for our present purpose by returning here to Mitchell's attempted proof that the American psychological school has "brought money back into the very center of economics." In this fact as Mitchell sees it, is found the essential accomplishment of that group; and for this Mitchell has words of praise qualified only by regret that "these writers have not emphasized the monographic character of their work"[33] and that most of them have stubbornly refused to admit that this was their intention or is their understanding of their results. There is an absurd element in the situation, in that some of us have repeatedly disavowed the opinions which Mitchell compliments. We would gladly believe his words that we have "rendered a notable service" and have helped to clarify the "understanding of economic processes." But truth compels us at least to modify his interpretation of the performance and to deny that we have done this by developing an uncompromising price economics.

We need not tarry to define the title "American psychological school"; Mitchell considers as representative of it but three writers, Davenport, Fisher, and Fetter, and we may limit our

[33] *Op. cit.*, p. 147.

consideration to the names he has chosen. Whatever may be the agreement in the views of these three (and seen from the orthodox or neo-classical standpoint, this must appear to be very considerable—more perhaps, in what they reject of the older doctrine than in their own positive doctrines) there are marked divergences. In the case of Davenport these go so far as to justify his own denial of membership in the psychological school ("I declare that I do not so belong").[34] While Davenport is to be reckoned among those who have modified and have aided to modify in essential respects some of the Ricardian concepts,[35] it is precisely in respect to the psychological aspect of the newer doctrine that he has remained most Ricardian.

I dissent therefore, as did Davenport, from Mitchell's dictum that Davenport's acceptance of the "private and acquisitive point of view" and his definition of economics as "the science that treats phenomena from the standpoint of price" is "the logical outcome" of the psychological doctrine of value. Rather it probably is evidence of the continuing influence of earlier Ricardian training, readjusted under the influence of Veblen who, irresponsibly, delights in a *jeu d'esprit* that reduces to absurdity the entire product of liberal as contrasted with socialistic economics.

In considering how far Fisher is evidence that the psychological school has brought money back into the very center of economics, let us refer, as does Mitchell, to an earlier statement by Professor J. R. Commons, in part to the same effect.[36] Linking the name of J. B. Clark (rather than, as does Mitchell, that of Davenport) with that of Fisher and myself, Commons says: "Scarcely a greater service could have been performed than that of working out to logical exactness the tenets of such a philosophy [*i.e.*, that of business capitalization of incomes]. It enables us to distinguish the true nature of political economy. . . . The work of Clark, Fetter, and Fisher, is admirable and indispensable, not only in its own sphere of business economics but also as a contrast to the sphere of political economics." With these words of praise is mingled a suggestion that the happy result was unintended and even unrecognized. Commons' attitude differs marked-

[34] In the discussion of Mitchell's paper, *idem,* p. 163.

[35] See my critical study, "Davenport's Competitive Economics," *Journal of Political Economy,* vol. XXII (June, 1914), p. 550.

[36] "Political Economy and Business Economy; Comments on Fisher's Capital and Income," *Quart. Journ. Econ.,* vol. XXII (Nov., 1907), p. 120.

ly from that of Mitchell, in that Commons deems that price economics is of limited scope and that price ought not to be taken as the center of economic inquiry. His admirable statement of this work of the newer school may be epitomized as follows:

Old-fashioned economists had the idea that wealth consisted of material things used to promote the welfare of human beings. They got confused in their idea of capital, which in some way they thought ought to be wealth used to get profit. New-fashioned economists saw that the confusion sprang from the idea of value, and they have worked out a clear distinction between the wealth which is the object of use, and capital, which they show has always had in it some thought of the value and ownership of wealth. It was thus a real service to develop the new capitalization concept. The identification of property and wealth causes no confusion where only the positive, or inclusive, side of property is involved. In certain cases, however, the right to keep service from being performed—property in its exclusive or prohibitive sense—may be capitalized (and examples are given from Fisher's writings).

In these cases, and only in these cases, Commons claims, this sort of business economy fails to coincide with political economy. With his opinion, so far as it goes, I agree fully; but I would go even farther. In many cases other than those he mentions, I hold that the value, or property, concept of capital is out of accord with the wealth and welfare concepts.

Commons' examples of the misuse of the new analysis are all chosen from Fisher's writings. It is significant that in a formal reply[37] Fisher made no attempt to justify or explain any of the particular cases indicated by Commons, confining himself to a general disclaimer of concern with business economics to the exclusion of welfare economics. Fisher's paper on "Why has the Doctrine of *Laissez-Faire* been Abandoned?" had been published a year before Commons' criticism. That paper, though not mentioning the capitalization process, went about as far as Commons does, in its clear recognition of the conflict of individual valuations with social welfare. Not long afterward Fisher declared repeatedly[38] and emphatically that "pecuniary concepts in

[37] "A Reply to Critics," *Quart. Journ. Econ.*, May, 1909.

[38] "Capital and Interest," a reply to Veblen, *Political Science Quarterly*, vol. XXIV, p. 504 ff.

general" are "relatively superficial."[39] "Least of all can we get along by means of 'pecuniary concepts'," which fix attention "on the money surface of things."[40] "Money of itself has no force except as it represents other things" etc.[41] Despite all this there is some color of truth in Mitchell's statement that Fisher in his textbook in 1912 gave an "uncompromising pecuniary version of economic behavior."[42] It is true that Fisher puts the accountancy aspects rather prominently in the foreground. We may regret to find certain evidences of inconsistency at points. But no critic, bent upon giving due weight to all parts of the evidence and not seeking in detached expressions and incidents evidence for a foregone conclusion, can find in Fisher any positive proof of a belief in price as the ideal center of economics as a whole. Fisher's notable recent activities, addresses, and writings on public health and in connection with the Association for Labor Legislation, ought of themselves to be a sufficient refutation of any such idea, were there not abundant other evidences. Yet no one could challenge Fisher's great distinction in the field where price economics is legitimate, but kept subservient to the larger ends of social welfare.

May I refer now to Mitchell's interpretation of my position? This is not a question of the truth or error of my opinion, but one of what the opinion is. The real situation, I believe, is explained by Commons above. I have been partly concerned in theory with bringing into clear view a confusion in the concepts of price and of capital that has always been present in economics, and partly with developing thereafter consistently the analysis of price. But instead of viewing this latter work as an ultimate goal, I have recognized in many ways its intermediateness and have always assigned it a place in the general scheme secondary to that of welfare economics. The evidence of this seems to me to be abundant, but to my chagrin, it has escaped Mitchell's attention. He misses, for example, the full import of the change from the Ricardian enterprisers' cost explanation of price to the modern subjective, valuation conception of price formation, in

39 *Pol. Sci. Quart.*, vol. XXIV, p. 506.

40 *Idem*, p. 513.

41 *Idem*, p. 516.

42 Mitchell says (*op. cit.*, p. 147) that he gave "a more uncompromising version . . . than Professor Fetter had done." Of course I reject the implication in the comparison.

which the valuations both of buyers and of sellers are considered. At one point, to be sure, Mitchell concedes that a theory of valuation adds significance to the price analysis, because the business man is not "indifferent to the grounds of choice" as is the pure theorist (meaning the school of Pareto and Walras). In its context this implies a concession of a minor merit to the psychological school, but merely because it happens at this point to serve a little better the purpose of the business man. In my view a greater merit is that it aids the purpose of welfare economics. There are countless acts and motives, entering into price formation, which have a bearing on the economic welfare of men, but which are quite lost sight of or are glossed over in merely pecuniary calculations.

But further, although Mitchell sees that in my treatment "the pecuniary aspects of economic life . . . are not permitted to cover the whole field," he refers as evidence of this, only to my "brief discussion of the social aspects of value."[43] He has missed a large part of the truth. Again and again in many connections in my treatment are shown the superficiality, the injustice, the immorality of taking pecuniary prices as the indices of social welfare. Again and again it is shown also that the individual's valuation, which helps to form a price and in turn is affected by it, is often opposed not only to the best social ends, but even to his own abiding welfare.[44] A more careful examination will show that I stress throughout the contrast between prices and the uses of goods, between private acquisition and social production, between value and "real" utility. To give a complete list of references would almost necessitate making an index of the contents of the two volumes.[45]

[43] *Op. cit.*, p. 148.

[44] This statement applies to my earlier text of 1904 and even more fully to the two later volumes of 1915 and 1916 in which the arrangement of the materials has been completely recast, but without essential change as to the matter here under consideration.

[45] In the light of these facts, what shall be said of the statement that the difference between Davenport's conception of price economics and mine is "important only from the terminological viewpoint. Both treat social value, and treat it apart from the main body of their theories; one calls this addendum economic theory, the other doesn't" (*idem*, p. 148, note). First, the question is not that of defining what is economic theory, but of defining what is economics. Secondly, my contrast of social aspects of value (or welfare considerations) with price calculus is no mere addendum but is a fundamental feature of my whole treatment. Thirdly, Mitchell's assertion stretches to un-

V. *The rightful place of price economics.*

We look in vain for evidence among contemporary American academic economists (with the exception of the few Laughlinites already indicated) of a definite adherence to the ideal of price economics. But in business circles and in the editorials of financial journals may be found many evidences of a full acceptance of Mitchell's view. From these quarters come frequent appeals to the authority of political economy (its "immutable" principles of free competition, the unchanging law of supply and demand), but always such appeals assume our political economy to be that of England in the Ricardian period, which, as Bagehot said, with approval, proceeded as if man were "animated only by motives of business." In appealing to this old ideal of economics on behalf of large business, in defense of wealth just as it is, and of all things as they are, the world of business ignores the fact which the Ricardian economists sometimes plainly saw, namely, that money is no true index of the underlying wealth, motives, and forces making for individual and collective welfare. In some connections the Ricardian economists recognized the superficiality of a merely commercial economics, probably in part because of their hostility to mercantilism and its exaggeration of the rôle of money, a hostility that was traditional from the days of Adam Smith.[46]

It would be far from the truth to say that all business men in

heard-of lengths that much abused phrase "mere terminology." That phrase is warranted in cases either where two different words are used for the same idea or where two ideas are expressed by the same word. If, as in this case, the difference is "merely terminological" when two different terms are used for two different ideas, then can a difference ever be anything but terminological? Professor Davenport lays down as basic the proposition that economics is coëxtensive with the price concept. With what contradiction he develops this thought and into what difficulties it leads him, I have tried to indicate in another place (*Journ. Pol. Econ.*, vol. XXII, p. 550). That is not our concern here, which is to fix the point that while Davenport's conception of the scope of economics limits it to price, mine makes it include also valuation and welfare. No casuistry can reduce these two to one.

[46] Mitchell suggests that the classical economists' suspicious attitude toward monetary economics was due to their hedonism; "nothing really counted in controlling behavior but pleasures and pains" (*op. cit.*, p. 142). But their crude psychology filled small space in their discussions, which were concerned mostly with commercial transactions, purchasing power, and the pecuniary calculus. See my preceding article, AMERICAN ECONOMIC REVIEW, vol. X, p. 473, sec. 2.

America today hold to the strict creed of commercial economics. Many of the greater industrial and financial leaders have of late in their utterances on questions of banking and railroad policy, labor relations, and other problems, implied to a notable degree an acceptance of public welfare as the ideal and aim of business. Great numbers of employers have come to feel that every industry, including their own, must be judged by its contribution to a better America, shown not merely in material production or in financial success but in the attractiveness of their own communities, in the homes and contented lives of their workmen, and in the effects upon the consumers. In very few cases is the belief of these employers to be classed as socialistic in any radical sense, though their views have been greatly socialized as compared with those of their predecessors. Many business men hold unconsciously, some avowedly, a creed of welfare economics in reference to most public questions, even though they may not always apply it in their own business.

The real economist needs surely to study and to know business conditions, needs for many purposes to be able to report and interpret the views as well as the facts of the business world. He ought, however, to give a broader and deeper interpretation of those views and facts than the business man needs to give for his individual ends or for corporate profits. He ought to comprehend the nature and relationships of price, as a problem of logic and philosophy, and trace much further the indirect workings of the price motives. And, above all, he must bear always in mind the larger purpose, must keep the larger outlook of a social scientist.

Price economics has its rightful and important place, though it is not at the center of economic interest in the larger and fuller sense, but near the periphery. At all times there are calling for the highest expert treatment, important problems that may be expressed in mathematical or in monetary terms, and that may be for a time studied separately, apart from the complexities of individual valuation and welfare considerations; such are monetary systems, problems of banking, trade statistics of many kinds, price history, price fluctuations, crises, statistical and abstractly limited studies of price relationships. Here Mitchell, Fisher, Kemmerer, Sprague, Laughlin, Willis, and others have achieved notable and valuable results. In times of great price changes such as the present, the rightful understanding of these questions is of

peculiarly great importance to general welfare; but always these questions should be studied by the economist with the ever present consciousness that he is not dealing with ultimate values in a real political economy but is only measuring certain distorted shadows of individual, or of commercial, economy. Even individual interests cannot safely be guided by a price economics; much less can community interests.

It is therefore vain to hope, as some do, that the conclusions of trained economists viewing the industrial world from a point apart should in respect to the larger problems of social progress be in accord with those of "the man in the street." By the very fact that one is a welfare economist one must see many things from a different angle and in a different perspective than does the business man as such. The super-simplified thinking of the price economics does not lead to valid welfare conclusions. In troublous times any welfare economist, by the very fact that he refuses to permit the pecuniary calculus to masquerade as social policy, may by the commercial world be pronounced ignorant and even dangerous. But it is a true economist's function to see things sanely and to see them whole, though this brings him to conclusions often out of accord with those of the market place and the counting house, where price economics usually has full sway.

In view of the facts we have reviewed, the truth seems to be that the more superficially commercial a problem is, the more fitting is a mere price explanation, but the more obscure the relations of human motives and needs, the more futile it becomes. Price economics applied to life does, as its champions claim, simplify economic thinking, but it does so by leaving out much (often all) that is of real importance to the individual life and to the social welfare. In view of the admitted difficulties must we not characterize price economics as a fool's paradise? Ought we to assume, just because it is "convenient" to do so, that money measures human motives on a large scale, when it does not? To do so merely gives an illusory appearance of finality and mathematical exactness, to conclusions without application to the greatest issues of human life.

The writer is regretfully conscious of the fact that the present article treating contemporary opinion on this subject stops far short of developing in due proportion all the topics suggested in the preceding article on the origin and history of price economics. Six different groups protesting against, or dissenting from, price

economics were there indicated. Five of these are not further described in this article: humanitarian reformers, secular moralists, Christian socialists, organized laborers, and radical communists. Yet all of these have their twentieth century successors; their sympathies and beliefs have penetrated and affected almost all elements of our citizenship. To describe these effects adequately would be to write the recent history of liberal thought in the field of industrial and social action. Such a treatise would transcend the limits of a magazine article. We have had to confine ourselves to the examination of contemporary opinion on price economics as found among the successors of the group last named in the foregoing article, the liberal, middle-class economists. At most we may hope to assist toward rightly interpreting opinion in this field and toward formulating the judgments of economists regarding the true center and proper function of political economy.

Our question has not been whether economics is a science or an art. Granted that it has its science aspect and its art aspect, the one having to do with explanation, the other with the application of ideas to practical affairs; the question is, in economics as a science what are we seeking to explain? In price economics as a goal, it is prices, exchanges, commercial statistics, and financial operations. In welfare economics it is the relation of men to their environment, social and physical, consisting of the objects of their choice, as affecting their sustenance, their happiness, and their welfare. The best in price economics, modestly interpreted, is but a small part of the means to the end found in welfare economics. Can there be any question as to which is the part of a real economics, and which is, and should be, the ideal of the little band of professionally trained economists in America today? If they and men of their kind and their training cannot succeed in guiding the energies, the aspirations, and the surplus material resources of our nation toward ends that meet the needs of human nature, civilization will fall between the commercial economists on the right, and the revolutionaries on the left, both groups, in their ways, alike inimical to constructive and humane welfare economics.

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